

Washington State Liquor Control Board Strategic Plan 2005-2007

Strategic Overview

Introduction

In the 70 years between the end of Prohibition and 2003, the Washington State Liquor Control Board returned about \$4 billion in revenue to the state through its control of the sale and taxation of spirits, beer and wine and through the licensing and regulation of businesses that produce, distribute and sell these products.

Revenue returned to the state has increased an average of more than **six** percent annually since 1997. The agency will return nearly \$250 million to the state this year. A **six** percent annual increase in revenue between 2004 and 2014 would net about \$3.25 billion to the state and local communities. An **eight** percent annual increase would net nearly \$4 billion, an amount equal to *all* the revenue earned in the previous 70 years.

The initiatives outlined in the WSLCB Strategic Plan will establish a firm foundation for the agency to become a more effective revenue generator for the state. Two important strategies are recommended to increase future support for the agency. One would be to allow the WSLCB to reinvest a portion of the revenue it earns from retail and wholesale business operations back into those operations. A second would be to allow the WSLCB to recover costs resulting from growth in licensing and enforcement activities.

If appropriations are used to strengthen the agency's foundation this biennium, and if reinvestment and cost-recovery strategies are approved to help the agency fund its business operations from now forward, then the agency will be in a much stronger position to improve revenue generation over the next decade.

The WSLCB's Unique Role

The WSLCB is *unique among state agencies*. No other state agency operates a \$600 million annual statewide retail business that returns nearly \$250 million annually in revenue. No other agency exercises a statewide monopoly over all categories of a market commodity (spirits). No other agency regulates the product it sells. No other agency is required to protect the public from the effects of the product or service it provides.

The WSLCB is not just an important revenue-generator for the state. In exercising its regulatory and public safety responsibilities, the agency *saves* the state millions of dollars annually by mitigating the negative effects of alcohol abuse. The costs of alcohol abuse are widely documented in many studies of health care, lost productivity, property

damage, premature death, crime and other social problems. There is a growing societal concern about the negative impact of alcohol abuse, as evidenced by much more stringent DUI laws, growing efforts to regulate alcohol advertising, increasing number of Alcohol Impact Areas, and growing numbers of community interest coalitions.

Balanced Mission

The WSLCB was established to fulfill a *balanced mission*, which under **RCW 66.08.010** means the agency exists to meet *un-stimulated demand* for spirituous liquor and to *protect public safety* through licensing, market regulation, enforcement and education. As the state's population continues to increase, the demand for alcohol products will grow. Increased capacity in licensing, enforcement and education also will be needed.

Organization

The WSLCB is composed of a three-member board appointed by the Governor and confirmed by the Washington State Senate. Members serve staggered six-year terms. The board members work 60 percent time establishing agency policy and conducting regular meetings to enact rules and hear citizen and stakeholder concerns. An Administrative Director is in charge of daily operations.

Key WSLCB Divisions

The following divisions are engaged in direct customer service:

Retail

Purchasing (function collaboratively)
Distribution Center

Licensing and Regulation

Enforcement and Education

Four other divisions provide foundational support:

Human Resources

Information Technology Services

Financial

Policy, Legislative and Media Relations

Retail Business Plan

The Retail Business Plan appended to the Strategic Plan illustrates in greater detail how the agency can increase its revenue-generating capacity by adopting best business practices, improving customer service, opening new stores, relocating existing stores and developing better in-store merchandising strategies.

WSLCB Supports Priorities of Government

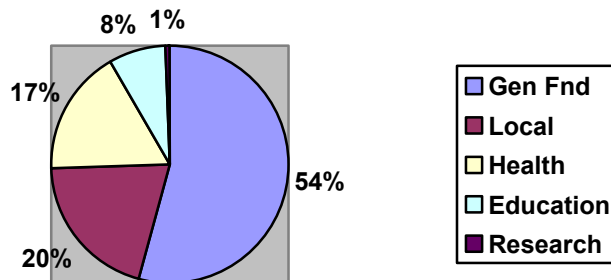
In developing agency priorities for 2005-2007, care was taken to ensure the agency's priorities align with and support the major areas of emphasis outlined in the state's *Priorities of Government*. The nearly \$250 million in revenue raised by the WSLCB in FY 2004 will directly support many of the programs and services that appear on the Governor's list of *critical statewide results* citizens expect from their government:

- *Student achievement (1)*
- *Workforce quality and productivity (2)*
- *Health and human services (4)*
- *Economic vitality of business (6)*
- *Safety of people and property (8)*
- *Government efficiency (11)*

WSLCB Revenue Distributed Statewide

A total of \$224.4 million was returned to the state in 2003. More than \$120 million in revenue was sent to the State General Fund. In 2004, the agency expects to return more than \$245 million. Some of this is disbursed by statute for health, prevention and other programs. The remainder becomes part of the state's general revenue, much of which is used to support public education. A more detailed chart in the Retail Business Plan shows revenue distributions to key state programs over the last decade.

Revenue Distribution 2003 - \$224.4 Million



General Fund	\$121.6	(in millions)
Cities/Counties	\$45.4	
Health Services	\$38.7	
Education/Prevention	\$17.4	
Research	\$1.3	

WSLCB's Economic Impact on Washington

Total operational activity measured in dollars is nearly \$600 million annually. In FY 2003, the WSLCB returned \$224 million in revenue to the state. This year the agency will return at least \$245 million. The aggregate annual economic impact of this operational activity on the state economy can be calculated as \$1.5 billion.

State Investment in WSLCB Recognizes Growth Potential

Since 2000, the WSLCB has sought and gained approval from the state for a series of improvements that have strengthened the agency's capacity to meet the challenges of future growth.

- *In 2000, the state approved a new operational model for the agency, by authorizing the appointment of an Administrative Director.*
- *In 2002, the Board reduced its hours to 60 percent, saving more than \$120,000 annually.*
- *In 2002, the agency developed its first Retail Business Plan.*
- *In 2002, a new Distribution Center, 10 years in planning and development, was opened in Seattle and is now operating at a 95 percent fill rate. The DC is nationally recognized for its innovative processes.*
- *In 2002, the agency began a broad review of its policies and risk management processes designed to produce continuous improvement in all aspects of its operations.*
- *In 2003, the Legislature approved the addition of five new stores to meet growing demand caused by growth in the drinking-age population.*
- *In 2004, the Legislature passed a bill giving the agency authority to set fees to recover costs associated with increased demand for licensing services.*

Performance Measures

Many positive performance indicators are evident as the agency moves forward. Sales performance has been especially strong in the first nine months of this fiscal year. As of March 31, 2004, for all classes of products (spirits, wine, cider, beer, alcohol):

- Gross dollar sales are up 9.21 percent compared to 2003.
- Case sales are up 4.84 percent, an increase of 142,518 cases.
- Liter sales are up 3.93 percent, an increase of 1,092,490 liters.

Other performance indicators:

- Fill rates at the Distribution Center are averaging 95 percent or better.
- Tobacco and liquor compliance rates are near 90 percent.
- Stores are meeting their budget goals.
- A simplified licensing procedure has reduced wait time 6 days. More than 30 license requests come in daily.

Revenue Growth Projection

The WSLCB believes it can average eight percent annual revenue increases during the next decade by:

- Adding new stores and new store types
- Achieving greater operating efficiencies
- Implementing new information technology and infrastructure
- Investing in employee training
- Expanding the Distribution Center
- Implementing cost-recovery/reinvestment strategies

The agency believes it can produce significantly more revenue over the next decade if foundational investments are made now and if reinvestment strategies are used to grow the business to a new level success. Time plays an important factor. If relatively small but much-needed investments are delayed now, disproportionate reductions will occur in future revenue-generating capacity.

Why Reinvestment and Cost Recovery Strategies Are Needed Now

The WSLCB is not allowed to reinvest any of the revenue it generates in its core business and service operations outside of the money it spends for product re-supply. All agency operating costs are funded by appropriations. The time lag in the appropriations process has several major negative impacts.

- It prevents quick response to changing market conditions and, consequently, reduces opportunity to improve revenue.
- It significantly reduces the agency's ability to implement long-range strategies to improve performance because funding for those strategies is uncertain.
- It can lower employee morale by delaying needed improvements, an especially important bottom-line factor in a retail sales environment.

Cuts experienced in the last four years have taken a toll on the WSLCB.

- *Staffing levels are thin, especially in the stores.*
- *There is excessive turnover in some areas.*
- *Many employees (up to 29 percent) are eligible to retire in two years.*
- *Important technology improvements have not been made.*
- *Vital employee training programs are on hold.*
- *New revenue-generating opportunities are being lost.*
- *Civil Service Reform is consuming increasing amounts of staff time.*

WSLCB Goals 2005-2007

- (1) Maximize revenues to the citizens of Washington.*
- (2) Enhance public safety by enforcing liquor and tobacco laws.*
- (3) Educate the public about the WSLCB mission and contributions to the community.*
- (4) Recruit, develop, retain and value a high-quality, diverse workforce.*
- (5) Modernize existing business systems and improve service delivery.*

These goals were developed following a series of meetings in 2003 and 2004. All agency employees were represented or included in these planning meetings and additional input was sought through open forums, surveys and in meetings.

Challenges and Opportunities

General Challenges

Revenue Re-investment Mechanisms

Goals: 1-5

The WSLCB needs to reinvest a percentage of the new revenue produced through improved retail and wholesale services in *infrastructure* and *employee training* – especially in the area of its retail liquor business – if it is to achieve its full revenue-generation potential.

Cost Recovery Mechanisms

Goals 1-5

Just as the agency needs to reinvest some of the revenue it earns from its retail business to grow that business, it also needs the ability to recover direct and indirect costs it incurs carrying out its public safety mission. More information is contained in the Licensing and Regulation Division summary.

Information Technology

Goals 1-5

The board, senior staff and the agency's employees have concluded that improving technology should be a top agency priority. Several technology improvements are needed: a *Wide Area Network* to support the point-of-sale system being installed in the stores; improvements to *Core Technology Operations*; and improvements to the *Licensing Database* and in *Online Service Delivery*. Each of these improvements has the potential either to increase revenue or improve service to the public.

Civil Service Reform

Goals 1-5

This sweeping legislation mandates a complete overhaul of collective bargaining and an agency assessment process for competitive contracting, among other key objectives. Organized labor partners with the agency in accomplishing its retail, wholesale and enforcement missions, producing a complex workforce dynamic. The agency's Human Resource Division will experience significant added workload as CSR advances.

Workforce Development

Goals 1-5

The agency needs to recruit and retain high-quality employees. More than 29 percent of WSLCB employees are eligible to retire by 2005. The agency stands to lose valuable organizational knowledge and experience if its current workforce is not given the tools to assume new responsibilities. A more strategic effort to recruit and retain high-quality employees is needed now to build staff capacity to fill the gaps these retirements will create.

Policy Development and Risk Management Processes

Goals 1-5

Policy development and improvements in management processes also have been identified as major agency priorities and are being addressed through a major policy initiative. The agency is behind and attempting to catch up in these vital foundational areas. Consistent, clear and meaningful policies and processes are particularly important in the retail and wholesale operation because the stores are spread over such a wide area.

Employee Training

Goals 1-5

Budget cuts, loss of a centralized training manager position and competing agency priorities have gutted the agency's training program. The LCB also lacks adequate technology for more cost-effective training options (e.g., wide-area network). Lack of training has been linked to increased tort claims, lawsuits and disciplinary actions. Additional training is needed to develop better customer service.

Increased Licensing Activity

Goals 2,3,5

The number of retail and non-retail licensees is increasing dramatically. In addition to the increase in volume of applications, the licensing function has become more complex. Reducing processing time for customers is a key goal. However, the LCB is limited by reliance on manual processes, lack of online tools, disjointed data systems and an obsolete computer system that cannot support reporting and analysis, and is no longer vendor-supported.

Increased Interest in Alcohol Impact Areas

Goals 2-3

Since rules permitting communities to form Alcohol Impact Areas were passed in 1999, an increasing number of requests have been received for assistance. Even more AIA work will be needed as communities attempt to curb the problems associated with chronic alcohol abuse. Alcohol Impact Areas add significantly to Licensing's administrative workload. New product information must be analyzed, stores monitored and regulations enforced. Additional technology and training are needed to support this mission.

Legal Challenges

Goals 2-3

This year Costco challenged Washington's laws regulating the distribution of beer and wine as illegal under the Sherman Anti-Trust Act. Nationwide, wine producers are mounting a campaign to challenge state regulations governing the importation of wine. Additional legal challenges are expected to the complex set of rules and laws that ensure a strong regulatory environment and increased public safety. Much of the burden in meeting these legal challenges is placed on the Licensing and Regulation Division.

National Accreditation for Enforcement

Goals 2-4

Enforcement is seeking to become nationally accredited by the Commission on Accreditation for Law Enforcement Agencies (CALEA). CALEA accreditation ensures that agency enforcement policies, practices and training curriculum meet nationally recognized standards for the delivery of law enforcement services. Accreditation reduces risk, increases efficiency in service delivery, and increases citizen and employee confidence in the agency. The required training for national accreditation is being addressed through a decision package request for FY 05-07.

Critical Partnerships

Partnership with Department of Licensing

An inter-agency agreement with the Department of Licensing (DOL) allows liquor licensees to renew their licenses online using DOL's website. Offered for the first time in December 2003, this new service is expected to reduce the number of late renewals, which require extra staffing time by Licensing and Enforcement personnel. It also should save licensees money by reducing late fees.

Partnership with Department of Health

In partnership with DOH, Enforcement conducts 3,000 annual compliance checks to ensure compliance with the federal Synar (Youth Access to Tobacco) act. The division produces training videos for retailers and is pursuing a partnership with DOH to enable the collection of tobacco compliance check data through the use of handheld computers.

Partnership with Department of Revenue

In 2003, taxes for all tobacco-related products exceeded \$422 million. DOR estimates that untaxed tobacco products cost the state \$109 million annually. WSLCB tobacco tax agents partner with DOR in an increasingly successful effort to collect revenue from untaxed cigarettes illegally shipped into the state for sale in smoke shops or sold on the Internet without state stamps.

Conclusion

The Washington State Liquor Control Board can become a model state agency and generate increasing revenue during the next decade. The agency's employees are excited about the opportunity to make this happen. In the last two years, the agency has made substantial strategic progress in all elements of its business and regulatory affairs. The WSLCB is prepared to run more like a successful business. The basic strategic planning outlined in this plan will propel it forward at a rapid rate.

Much remains to be done: additional policy development and implementation; improved internal controls and process improvement; employee training; Civil Service Reform; technology improvement; and infrastructure development. The WSLCB is confident it can meet and exceed the expectations raised in this plan if the state funds the agency as a full partner.